

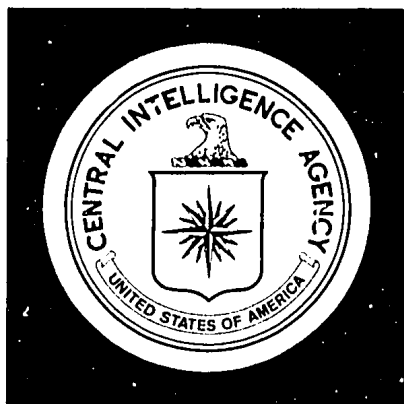
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## *Economic Intelligence Weekly*

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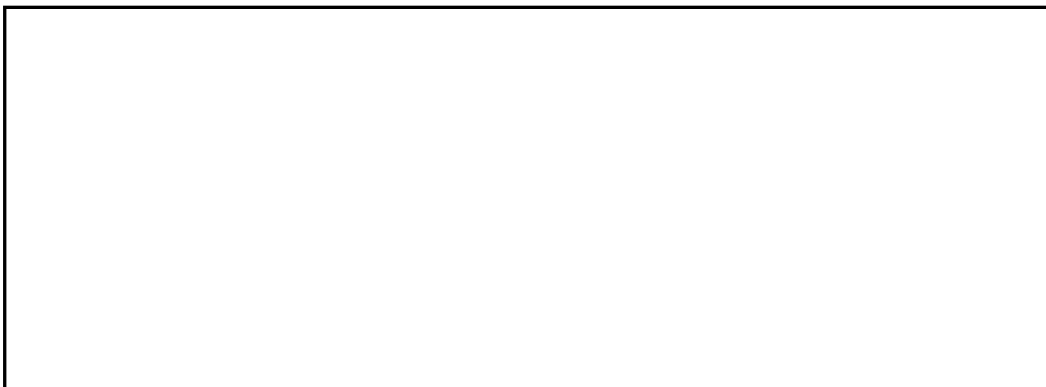
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**India May Soften Foreign Investment Attitude**

Senior government officials recently agreed to consider the 61% equity holding demanded by Abbott Laboratories, a US pharmaceutical firm, for its proposed expanded operations in India. Previously, the government has tried to reduce foreign equity in Indian firms to no more than 40%. New Delhi also intends to increase minerals development sharply, and to invite foreigners to invest in construction, design, and supply of equipment. Even though a more flexible government policy seems to be emerging, prospects for US private investment in India remain limited to a few high-technology situations. 

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**Sino-Japanese Undersea Cable Link**

The submarine coaxial cable system that China and Japan recently have agreed to build between Shanghai and Nagasaki will connect the PRC directly into the worldwide submarine cable telecommunications system. The new \$20 million Shanghai-Nagasaki link will be capable of providing up to 900 telephone circuits. This system will greatly enhance China's ability to communicate with Europe and the United States. 

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**Japan: Softwood Timber Needs**

Japan's ravenous demand for imported softwood logs and lumber is expected to increase further in 1973 because of the housing boom. Import needs will be up by about 6% in volume even with some drawdown in inventories. The Japanese prefer to buy logs but probably will be unable to import more of them, especially if the United States limits shipments.

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Log exports by the Soviet Union and New Zealand are unlikely to rise and may in fact fall this year, and Canada is continuing to restrict exports. Although Japan can obtain more lumber from Canada, any major increase would require a cut in shipments to the United States. Canada now supplies about 22% of US lumber needs, and all indications are that Canadian mills are already working close to capacity.

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**SECRET****Articles****Fertilizer Shortages Threaten Grain Production Increases**

In the past year the world market for some important chemical fertilizers has shifted from one of unused capacity and unsold stocks to one marked by short supplies and rising prices. Since mid-1972, world demand has greatly exceeded expectations because of the need to expand food output in the wake of worldwide agricultural failures. As a result, world fertilizer prices increased by an average of 20% in the last half of 1972.

World supply of fertilizer has lagged behind demand.

- A glut in the late 1960s forced a number of less efficient fertilizer plants out of the industry, and construction of new plants lagged behind schedule, particularly in less developed countries.
- Supply is particularly tight for concentrated superphosphates and multinutrient fertilizers and for urea, popular for its high nitrogen content and ease of handling.
- In the United States, most new phosphoric acid capacity will not be completed until the end of 1974, creating a bottleneck for increased phosphate and multinutrient fertilizer output.
- Output of nitrogenous fertilizers in the United States in the short run may be restricted by insufficient production of ammonia stemming from natural gas shortages.

Short fertilizer supplies and high prices may limit hoped for increases in grain production this year by holding down yields. India, for example, is likely to fall far short of its goal for wheat output this spring, in part because fertilizer consumption is only about two-thirds of the scheduled amounts. India's suppliers have not fulfilled fertilizer contracts, and shortages of spare parts and raw materials are curbing domestic production of fertilizers. Other less developed countries, including Bangladesh, Indonesia, and South Vietnam, are likely to be hurt.

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**SECRET****Italian Prime Minister to Visit the United States on 17-18 April**

Failure to move Italy's economy out of the doldrums is a prime source of pressure on Prime Minister Giulio Andreotti's government and indeed may provide the issue that eventually could topple it. Therefore, during his Washington visit, Andreotti will resist trade or monetary commitments that would reduce the competitiveness of Italy's exports.

Italy's economy, the weakest in the EC, shows few signs of strong self-sustaining growth. The continued sluggishness stems largely from serious cost pressures since 1969. Italian unit labor costs have risen faster than in any other EC country. With domestic consumer demand weak and competition in export markets keen, producers have been able to pass on only a small part of their cost increases through price hikes. The resulting profit squeeze has sharply reduced private investment. Political uncertainties at home and better yields on investments abroad have further retarded investment in Italy and contributed to massive capital outflows and instability of the lira.

The Andreotti government has taken or plans to take a number of steps to end the slump. These moves should boost growth to about 4% this year and ease pressure on the lira. However, lack of confidence in the government and an ample margin of idle industrial capacity militate against a strong recovery in private investment. In addition, exporters and importers will continue to speculate on a further lira devaluation until the economy clearly shows an upward trend.

Although the government's program may have limited success in stimulating the economy, the side effects will tend to heighten political tensions. Expansionary monetary and fiscal policies will contribute to an expected 8% rise in consumer prices this year and arouse criticism from the labor unions, the Communists, and the Socialists, who feel that the government favors business over the consumer. Current economic policy has also placed Italy outside the mainstream of EC policy, especially its refusal to join the joint EC float. Such actions have evoked criticism from many parties, including the Republicans, which claim that the Andreotti government is repudiating Italy's longstanding commitment to European unity.

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### Prospects Poor for Reducing Inflation in the EC

Inflation will remain a critical problem in the European Community in 1973. Barring strong government intervention, consumer prices will increase at roughly the same 6%-8% rate experienced in the EC countries in 1972. The comparable 1972 US increase was 3.4% (see the table).

Both demand and cost factors are playing major roles in the continuing inflationary surge.

- Unit labor costs in major countries are rising at an annual rate of 4.5%-7.5%, with West Germany showing the slowest increase and Italy and Belgium the most rapid. US labor costs grew only 1.5% in 1972.
- Demand pressures are increasing as all EC nations, except the United Kingdom, Italy, and Ireland, approach full employment.

Despite recognition that inflation is an EC-wide problem, there has been relatively little coordination among member governments.

- Two proposals for reductions in Community tariffs have been blocked by the French.
- Attempts at fiscal restraint have been unsuccessful because of the nondiscretionary nature of much of the individual federal budgets and the fact that much government spending is at local levels, beyond the control of the central authorities. Regional unemployment problems, especially in France, the United Kingdom, and Italy, are also important obstacles to a common anti-inflationary program.

The high rate of inflation will result in a deterioration of the EC's competitive position vis-a-vis the United States as price increases are reflected, albeit to a lesser extent and after some delay, in export prices. Although no bold EC action apparently is now being considered, trade pressures, and a buildup in popular resentment against inflation, could provide the incentive for attempts at some concerted move by year-end.

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**Consumer Price and Unit Labor Cost<sup>1</sup> Increase  
in January-December 1972**

	<u>Percent Increase</u>	
	<u>CPI</u>	<u>Unit Labor Cost</u>
United States	3.4	1.5
Belgium	6.4	7.5
Denmark	7.3	....
France	6.9	6.5
Ireland	8.2	....
Italy	7.0	7.5
Luxembourg	6.0	7.5
Netherlands	7.8	3.5
United Kingdom	7.6	6.0
West Germany	5.8	4.5

1. Wage costs per unit of gross value added in the private, nonfarm sector in national currency.

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### Egypt: Sadat's Economic Options

President Anwar Sadat faces economic problems that could eventually affect the search for peace in the Middle East. New short-term difficulties have been added to the long-term problems of chronic trade deficits and crushing foreign debt. These include a rise in the prospective current account deficit to almost \$400 million this year, even after counting Khartoum subsidies of about \$250 million. The rise in the deficit stems from larger outlays for wheat, reduced earnings from oil, and the suspension of Libya's ad hoc aid, which had amounted to as much as \$200 million in recent years.

Sadat has several options, none entirely palatable. He can:

- Muddle through - e.g., draw down unexpended credits, seek further credits from international lending agencies, cut imports further, and default on current bills and debt service payments. These measures, however, could deprive Egypt of its remaining credit hopes, lower living standards, and cut back employment opportunities for the restless urban masses.
- Seek additional aid from the USSR. The Soviets might defer or extend debt repayment to ease Egypt's immediate financial problems, but they remain wary of adding to the huge debt owed by the Egyptians on past military and economic aid.
- Embrace the oil-rich Libyans in the hope of assuring both immediate ad hoc aid and longer term economic security, but this probably would require Cairo to adopt a more radical stance toward Israel.
- Endeavor to exact financial aid from the United States and other Western countries by agreeing to more forthcoming settlement terms with Israel. If such a move were made, all remaining Libyan financial support - including Libya's annual \$59 million Khartoum subsidy - would cease. Egypt also might lose the \$190 million annually in Khartoum subsidies from other Arab states.

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